



State of Utah
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

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Division Director

September 25, 2003

Mr. Fred Craft
U. S. Energy Company
877 North 800 West
Riverton, Wyoming 82501

Subject: Authorization for Partial Release of Reclamation Surety, U. S. Energy Company,
Velvet Mine, M/037/040 , San Juan County, Utah

Dear Mr. Craft:

This letter is authorization from the Utah Division of Oil, Gas and Mining to reduce the surety bond for the Velvet Mine in San Juan County, Utah, from the current amount of \$63,900 to \$23,400 (copy of bond estimate is enclosed). The new surety amount reflects escalation for three years to the year 2006. The current bond, number S177 497, was issued by Employers Mutual Casualty Company. The Bureau of Land Management manages the land on which the mine is located, and they have concurred that the site is adequately reclaimed to allow this bond reduction.

Representatives of the Division of Oil, Gas and Mining have inspected the mine site and have determined that the site has been adequately reclaimed with the exception of revegetation. All surface facilities have been removed, the portal and vent shafts have been sealed, and the site has been satisfactorily regraded. The remaining bond is to cover the costs of surface preparation and revegetation.

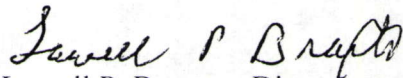
The bond reduction may be accomplished by obtaining a rider to your current bond, or by submitting a new bond in the form of a surety, a certificate of deposit, an irrevocable letter of credit, or a cash deposit.

We also request that you submit a new updated Reclamation Contract reflecting the new bond amount, escalation year, and company officers, if necessary. A Reclamation Contract form (MR-RC) is enclosed for your use.

Fred Craft
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If you have any questions or concerns, please contact Mary Ann Wright at (801) 538-5306, or Wayne Hedberg at (801) 538-5286. Again, thank you for your help in this matter.

Sincerely,


Lowell P. Braxton, Director
Division of Oil, Gas and Mining

LPB:PBB:jb
Enclosure: bond estimate & MR-RC
cc: Ted McDougall, Monticello BLM
Mary Ann Wright, OGM
Wayne Hedberg, OGM
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RECLAMATION SURETY ESTIMATE

U.S. Energy Corporation

Velvet Mine

DOGM file Number M/037/040

Prepared by Utah State Division of Oil, Gas & Mining

last revision

09/12/03

filename M037-040.xls

San Juan County

-During 2003 the site was reclaimed.

- Structures removed, portal, vents, & escapeways closed, and dump and facilities areas recontoured.

-Bond held for revegetation success.

Note: actual unit costs may vary according to site conditions last unit cost update 10/07/02

-Amount of disturbed area which will receive reclamation treatments = 22 acres

-Estimated total disturbed area for this mine = 22 acres

Activity	Quantity	Units	\$/unit	\$	Note
Ripping recontoured area prior to seeding	22 acre		246	5412	(09)
Composted manure (10 ton/acre)	22 acre		300	6600	(00)
Broadcast seeding	22 acre		240	5280	(00)
Equipment mobilization	1 equip		2000	2000	(00)
Reclamation supervision - 10% of bond amount			10%	212	(15)
		Subtotal		19504	
				1950	
10% Contingency		Subtotal		21454	
				1914	
Escalate for 3 years at 2.89% per year		Total		23369	
				23400	
Rounded surety amount in year 2006 \$				23400	
Average cost per disturber acre =				1062	